

Message Text

UNCLASSIFIED

PAGE 01 PANAMA 02822 01 OF 03 251853Z
ACTION MMO-04

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 DOE-15 SOE-02 L-03 H-02
SAB-02 /133 W

-----051188 251947Z /64

R 251700Z APR 78
FM AMEMBASSY PANAMA
TO SECSTATE WASHDC 6711
INFO AMEMBASSY GUATEMALA
PANCANAL
USSOUTHCOM

UNCLAS SECTION 1 OF 3 PANAMA 2822

GUATEMALA PASS ROCAP

E.O. 11652: N/A
TAGS: EFIN, ECRP, PN
SUBJECT: CERP 0200: ANALYSIS GOP BUDGET FOR 1978

REF: PANAMA 1156

1. SUMMARY: THE GOP BUDGET FOR 1978 REFLECTS A CONTINUING POLICY OF GOVERNMENT FISCAL AUSTERITY. OVERALL EXPENDITURES ARE BUDGETED TO RISE ONLY 5.4 PERCENT ABOVE THEIR 1977 LEVEL (VS. 7 PER CENT EXPECTED INFLATION), WHILE REVENUES ARE PROJECTED TO INCREASE BY 9.3 PER CENT. FINANCIAL PRESSURES ON THE GOP REMAIN INTENSE, HOWEVER, AS BOTH ITS DEBT SERVICE BURDEN AND OVERALL BORROWING REQUIREMENTS CONTINUE TO RISE. THIS IS THE THIRD SUCCESSIVE YEAR OF GOP BUDGET DECLINE IN REAL TERMS WHICH IMPARTS A FURTHER CONTRACTIONARY EFFECT ON AN ALREADY WEAK ECONOMY. SENATE APPROVAL OF THE NEW CANAL TREATIES MAKES IT LIKELY THAT THIS YEAR'S BUDGET TARGETS WILL BE MET.
END SUMMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PANAMA 02822 01 OF 03 251853Z

2. OVERVIEW: THE 5.4 PER CENT BUDGETED INCREASES IN GOP EXPENDITURES--FROM \$731 MILLION IN 1977 TO \$771 MILLION IN 1978--FOLLOWS A ZERO CHANGE THE YEAR BEFORE, WHILE A PROJECTED REVENUE INCREASE OF 9.3 PER CENT FROM \$343 TO \$375 MILLION IN 1978 WOULD CONTINUE LAST YEAR'S IMPROVED REVENUE PERFORMANCE. HOWEVER, THIS STILL LEAVES

THE GOP WITH A 1978 BUDGET DEFICIT OF \$396 MILLION, LITTLE CHANGED FROM 1977. AS IN THE PAST, THE DEFICIT (WHICH CAN BE CONSIDERED THE RESULT OF CAPITAL INVESTMENTS SINCE REVENUES BARELY EXCEED CURRENT EXPENSES) WILL HAVE TO BE FINANCED LARGELY FROM ABROAD. (THE ABOVE FIGURES INCLUDE THE TOTAL CENTRAL GOVERNMENT BUDGET PLUS INVESTMENT OUTLAYS ONLY OF THE AUTONOMOUS AGENCIES).

3. THE 1978 BUDGET REFLECTS A CONTINUATION OF FTHZ BASIS FINANCIAL AUSTERITY WHICH HAS CHARACTERIZED THE LAST THREE ANNUAL GOP BUDGETS. OVERALL EXPENDITURE INCREASE HAS BEEN HELD BELOW INFLATION, INCREASING ON THE AVERAGE BY ONLY 3.8 PER CENT ANNUALLY SINCE 1975 COMPARED TO A CORRESPONDING INFLATION RATE OF ABOUT 6.4 PER CENT ANNUALLY OVER THIS PERIOD, WHILE TOTAL PUBLIC SECTOR INVESTMENT IN 1978 WILL BE LITTLE CHANGED FROM THE 1975 LEVEL. THESE STEADY DECLINES IN REAL TERMS INTENSIFY PRESSURES TO INCREASE GOP SPENDING, ESPECIALLY MINISTERIAL OPERATING EXPENDITURES (INCREASED WAGES, SERVICES). THE FURTHER GROWTH IN REVENUES EXPECTED THIS YEAR HAS PERMITTED THE GOP TO LOOSEN UP ONLY SLIGHTLY IN THE MINISTRIES' OPERATING BUDGETS, SINCE THE GOVERNMENT STILL FACES MAJOR FINANCIAL CONSTRAINTS. A MAJOR PROBLEM IS THE PUBLIC SECTOR'S STEADILY RISING DEBT SERVICE BURDEN WHICH IS PROJECTED TO REACH \$371 MILLION IN 1978 COMPARED TO \$341 MILLION IN 1977. THUS, INCREASED GOP BORROWING THIS YEAR--AGAIN MOSTLY UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PANAMA 02822 01 OF 03 251853Z

FROM FOREIGN SOURCES--WILL GO FOR INCREASED DEBT SERVICING AS WELL AS INVESTMENT SPENDING. ORDINARY REVENUES ARE INTENDED TO COVER ONLY CURRENT EXPENDITURES, FOR BOTH THE CENTRAL GOVERNMENT AND THE AUTONOMOUS AGENCIES.

4. WITH OVERALL EXPENDITURES BUDGETED TO RISE LESS THAN THE PRICE LEVEL, AND WITH REVENUES PROJECTED TO INCREASE MORE RAPIDLY THAN EXPENDITURES, GOP BUDGET AUSTERITY WILL BE A DRAG ON ECONOMIC ACTIVITY IN PANAMA AGAIN THIS YEAR, AS THE ECONOMY STRUGGLES TO BREAK OUT OF ITS THREE-YEAR-OLD SLUMP.

5. REVENUES (CENTRAL GOVERNMENT): THE 9.3 PER CENT INCREASE PROJECTED FOR CENTRAL GOVERNMENT 1978 REVENUE COLLECTIONS STEMS LARGELY FROM THE CONTINUING EFFECTS OF LAST YEAR'S NEW 5 PER CENT CONSUMER SALES TAX, AND TO SOME DEGREE FROM ANTICIPATED HIGHER PRICES IN 1978--PROBABLY AROUND 7 PER CENT OVERALL. ALMOST \$8 MILLION OF THE \$32 MILLION PROJECTED REVENUE INCREASE COMES DIRECTLY FROM THE 5 PER CENT TAX, WHICH WILL BE COLLECTED FOR 12 MONTHS IN 1978 COMPARED TO 10 MONTHS LAST YEAR (THE EFFECTIVE DATE OF THE TAX WAS MARCH 1, 1977). ALSO, THE \$10

MILLION INCREASE EXPECTED IN 1978 INCOME TAX COLLECTIONS RESULTS MAINLY FROM THE BETTER RECORDS KEEPING AND INCOME REPORTING BY BUSINESS REQUIRED BY THE 5 PER CENT TAX, RATHER THAN A SIGNIFICANT IMPROVEMENT IN EARNINGS--EITHER BUSINESS OR PERSONAL. MODEST ACROSS-THE-BOARD INCREASES IN OTHER INDIRECT TAXES, AS WELL AS NON-TAX REVENUES (PRINCIPALLY THE NATIONAL LOTTERY), REFLECT THE HIGHER PRICE LEVEL EXPECTED THIS YEAR. ANY UPTURN IN THE ECONOMY IS NOT LIKELY TO DEVELOP QUICKLY ENOUGH TO HAVE A MAJOR IMPACT ON THE GOP'S 1978 REVENUES ALTHOUGH IT SHOULD ASSURE THAT REVENUE TARGETS ARE EASILY MET.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 PANAMA 02822 02 OF 03 251911Z
ACTION MMO-04

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 DOE-15 SOE-02 L-03 H-02
SAB-02 /133 W

-----051335 251947Z /64

R 251700Z APR 78
FM AMEMBASSY PANAMA
TO SECSTATE WASHDC 6712
INFO AMEMBASSY GUATEMALA
PANCANAL
USSOUTHCOM

UNCLAS SECTION 2 OF 3 PANAMA 2822

GUATEMALA PASS ROCAP

6. CURRENT EXPENDITURES (CENTRAL GOVERNMENT): THE MODEST \$15 MILLION (4.2 PER CENT) INCREASE IN THE CENTRAL GOVERNMENT'S 1978 CURRENT EXPENDITURE BUDGET CONSISTS OF \$10 MILLION IN INCREASED INTEREST PAYMENTS, A \$10 MILLION INCREASE FOR MINISTRY OPERATIONS, AND A \$5 MILLION REDUCTION IN TRANSFER PAYMENTS (MOSTLY SUBSIDIES). THE INCREASE FOR MINISTERIAL OPERATING EXPENSES IS QUITE EVENLY DISTRIBUTED, EXCEPT FOR THE \$3 MILLION BOOST IN OUTLAYS FOR HEALTH. HOWEVER, THESE MINOR INCREASES ARE COMPLETELY INADEQUATE TO RELIEVE THE PRESSURE TO INCREASE GOVERNMENT EMPLOYMENT, WAGE LEVELS, AND SERVICES PROVIDED TO THE PUBLIC, WHICH HAS BEEN

INTENSIFYING DURING THE PAST THREE YEARS AS INFLATION HAS STEADILY REDUCED MINISTERIAL OPERATING BUDGETS IN REAL TERMS. MEANWHILE, INTEREST ON THE CENTRAL GOVERNMENT PUBLIC DEBT HAS CONTINUED TO RISE DRAMATICALLY (ALONG WITH OTHER ASPECTS OF GOP PUBLIC SECTOR DEBT SERVICING) FROM \$41.6 MILLION IN 1975 TO \$74.2 MILLION
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PANAMA 02822 02 OF 03 251911Z

IN 1978--A 21 PER CENT ANNUAL INCREASE (SEE TABLE 2 FOR A BREAKDOWN OF TOTAL PUBLIC SECTOR DEBT SERVICING).

5. CAPITAL OUTLAYS (CENTRAL GOVERNMENT PLUS AUTONOMOUS AGENCIES): THE PUBLIC SECTOR CAPITAL EXPENDITURE BUDGET FOR 1978, ALTHOUGH \$25 MILLION (6.4 PER CENT) ABOVE LAST YEAR, IS ONLY \$6 MILLION HIGHER THAN 1975. THIS REAL DECLINE IN CAPITAL SPENDING OVER THE PAST THREE YEARS HAS SET BACK THE GOP'S INVESTMENT PROGRAM, REFLECTING LIMITATIONS IMPOSED BY BOTH THE PACE AT WHICH THE GOP CAN ABSORB CAPITAL AND BORROWING CONSTRAINTS WHICH STEM LARGELY FROM PANAMA'S RAPIDLY RISING PUBLIC SECTOR DEBT AND DEBT SERVICING BURDEN. THE LARGEST OUTLAYS THIS YEAR ARE FOR ELECTRICAL POWER (22 PER CENT) WITH THE GOP'S MAJOR HYDROELECTRIC PROJECTS IN FULL SWING, WHEREAS IN 1977 THE MAJOR PROGRAM WAS IN THE INDUSTRY SECTOR--MAINLY THE COMPLETION OF THE GOP'S NEW SUGAR MILLS. TRANSPORT REMAINS THE SECOND LARGEST SECTOR--17 PER CENT OF THE TOTAL 1978 CAPITAL BUDGET--LITTLE CHANGED FROM THE BUDGET PATTERN OF RECENT YEARS. THE OTHER SECTOR BUDGETS ARE MUCH SMALLER BY COMPARISON, INCLUDING AGRICULTURE (SHOWN AS 15 PER CENT) AND HOUSING (SHOWN AS 11 PER CENT) SINCE THE BULK OF THE ACTIVITIES WITHIN THESE TWO SECTORS INVOLVES LOANS TO THE PRIVATE SECTOR BY THE GOP'S AGRICULTURAL DEVELOPMENT BANK AND MORTGAGE BANK WHICH ARE TO BE REPAYED AND WHICH THEREFORE REPRESENT PRIVATE SECTOR RATHER THAN PUBLIC SECTOR INVESTMENT.

6. DEFICIT: THE OVERALL 1978 BUDGET DEFICIT OF \$396 MILLION IS LITTLE CHANGED FROM RECENT YEARS' (\$398 MILLION IN 1975), REFLECTING FOR THE MOST PART
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PANAMA 02822 02 OF 03 251911Z

A SIMILAR STABILITY IN THE LEVEL OF PUBLIC SECTOR INVESTMENT. THE RECENT PATTERN HAS BEEN FOR THE GOP TO FINANCE ITS INVESTMENT PROGRAM THROUGH BORROWING--

MOSTLY FROM FOREIGN SOURCES. IN 1978 THE GOP WILL REQUIRE AN ESTIMATED \$336 MILLION IN NET BORROWING, \$554 MILLION GROSS, LESS \$217 MILLION DEBT AMORTIZATION--WITH THE REMAINING \$59 MILLION FINANCED PRINCIPALLY THROUGH AGRICULTURAL AND MORTGAGE LOAN REPAYMENTS PLUS A U.S. GRANT FOR INTER-AMERICAN HIGHWAY CONSTRUCTION. ESTIMATED GROSS BORROWING OF \$554 MILLION THIS YEAR COMPARES TO \$497 MILLION IN 1977 AND IS UP SUBSTANTIALLY FROM \$362 MILLION IN 1975, PRIMARILY BECAUSE OF GREATLY INCREASED AMORTIZATION REQUIREMENTS. IN EFFECT, A GROWING VOLUME OF GOP DEBT REFINANCING HAS BEEN TAKING PLACE.

8. COMMENT: THE GOP'S 1978 BUDGET, ALTHOUGH CONSERVATIVE, ASSUMED CANAL TREATY RATIFICATION BEFORE THE END OF 1978, SINCE OTHERWISE REVENUES AND ESPECIALLY FOREIGN BORROWING COULD HAVE BEEN EXPECTED TO FALL WELL BELOW 1978 BUDGET REQUIREMENTS. SENATE APPROVAL MAKES IT LIKELY THAT BOTH THE CURRENT REVENUE AND EXPENDITURE TARGETS WILL BE MET--POSSIBLY EXCEEDED--AS A RESULT OF A PROBABLE QUICKENING ECONOMIC TEMPO DURING THE 1978 SECOND HALF, EVEN THOUGH DIRECT BENEFITS TO PANAMA FROM THE NEW TREATIES WILL NOT BEGIN FOR ANOTHER YEAR OR TWO. REVENUE COLLECTIONS DURING THE 1978 FIRST QUARTER RAN SLIGHTLY AHEAD OF TARGET. MORE IMMEDIATELY IMPORTANT, AS A RESULT OF U.S. SENATE APPROVAL OF THE TREATY, THE GOP NOW HAS A REASONABLY GOOD CHANCE OF LINING UP THE MASSIVE NEW BORROWING REQUIRED BY THIS YEAR'S INVESTMENT BUDGET AND DEBT SERVICING NEEDS.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 PANAMA 02822 03 OF 03 251914Z
ACTION MMO-04

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 DODE-00 DOE-15 SOE-02 L-03 H-02

SAB-02 /133 W

-----051346 251946Z /64

R 251700Z APR 78

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 6713

INFO AMEMBASSY GUATEMALA

PANCANAL

USSOUTHCOM

UNCLAS SECTION 3 OF 3 PANAMA 2822

GUATEMALA PASS ROCAP

9. FOLLOWING IS A SUMMARY OF THE GOP'S 1978 BUDGET (TABLE 1) AND A BREAKDOWN OF GOP PUBLIC SECTOR DEBT SERVICING FOR 1977 AND 1978 (TABLE 2). DETAILED TABLES COMPARING THE 1978 BUDGET TO 1977 AND 1976 RESULTS WILL BE SUBMITTED BY AIRGRAM.

TABLE 1

GOP CONSOLIDATED NATIONAL BUDGET /1/
(\$MILLIONS)

	1977(ACT)	1978(BUD)	0/0CHANGE
A. REVENUES	343	375	PLUS9.3
DIRECT TAXES	130	142	PLUS9.6
INDIRECT TAXES	151	165	PLUS 9.1
(5 0/0 SALES TAX)	(33)	(40)	PLUS22.6
NON-TAX REVENUE	62	68	PLUS9.0
UNCLASSIFIED			
UNCLASSIFIED			
PAGE 02 PANAMA 02822 03 OF 03 251914Z			
B. EXPENDITURES	731	771	PLUS5.4
CURRENT	343	358	PLUS4.2
MINISTRIES	218	228#	PLUS4.5
TRANSFERS	62	56	-9.4
INTEREYT	64	74	PLUS16.3
CAPITAL	388	413 #	PLUS6.4
(INCL. GOP LENDING OPER)/2/	(120)	(115)	(-4.2)
CZNTARAL GOVERNMENT	118	71	-39.8
AUTONOMOUS AGENCIES	270	342	PLUS26.7
C. DEFICIT	-388	-396	
GROSS BORROWING	497	554	
LESS AMORTIZATION	-235	-217	
NET BORROWING	261	337	
OTHER/3/	127	59	

/1/ TOTAL CENTRAL GOVERNMENT BUDGET PLUS CAPITAL OUTLAYS OF AUTONOMOUY AGENCIES.

/2/ MOSTLY HOUSING AND AGRICULTURAL LOANS TO THE PRIVATE SECTOR.

/3/ INCLUDES LOAN REPAYMENTS TO GOP, U.S. GRANT (INTER-AMERICAN HWY.), MISC.

TABLE 2

GOP PUBLIC SECTOR DEBT SERVICING

(\$ MILLIONS)

1977 TOTAL CENTRAL GOV'T AUTON..AGENCIES

AMORTIZATION 235 53 182

INTEREST 106 66 # 40

341 119 222

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PANAMA 02822 03 OF 03 251914Z

1978

AMORTIZATION 217 64 153

INTEREST 154 74 80

371 138 233

GONZALEZ

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, CERP 0200, BUDGET DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 25 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PANAMA02822
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780177-0125
Format: TEL
From: PANAMA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780420/aaaaaqff.tel
Line Count: 352
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5c0449a8-c288-dd11-92da-001cc4696bcc
Office: ACTION MMO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: 78 PANAMA 1156
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2859097
Secure: OPEN
Status: NATIVE
Subject: CERP 0200: ANALYSIS GOP BUDGET FOR 1978
TAGS: EFIN, ECRP, PN
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5c0449a8-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014